

## According to the American Heart Association



### Distressed Assets

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## Distressed Properties Challenge Managers

By: [Les Shaver](#)

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The ever-opportunistic Pierce Ledbetter, CEO of LEDIC Management, sometimes starts scouting distressed properties to manage before their banks even really know how much trouble they're in. LEDIC applies to a subscription service that lists loans in a given zip code. Once the property's loan is more than 30 days past due, LEDIC starts doing a market study and taking photos have an archive of physical appearance over time.

"The advantage of watching is twofold," Ledbetter says. "It helps me know a submarket better, and it helps management be a better witness on behalf of the lender for whom they may be working."

Ledbetter's aggressiveness is needed throughout the process of managing REOs. But with that extra effort comes more questions. In a typical transaction, the purchaser gets to perform due diligence. When working with lenders on REOs, Ledbetter says there's an "absence of information." By scouting out properties, he fills that gap. But there's a danger. All of Ledbetter's efforts could be for nothing. "Up until 11th hour, the owner may be able to cure the default," he says.

The lender makes recommendations, but the court signs the agreement with the manager, which has to post a surety bond. "They're looking for someone who can come in and clean the property up," says John Bartling, co-founder and managing director of Dallas-based AllBridge Investments.

Once he takes over a property, Ledbetter mobilizes his certified public accountants and certified property managers. "Often times, what you do in management, particularly in the first days after takeover, will become a matter of court and public record," he says. "You need to have someone in your management company that has the proper credentials to be an expert witness in court."

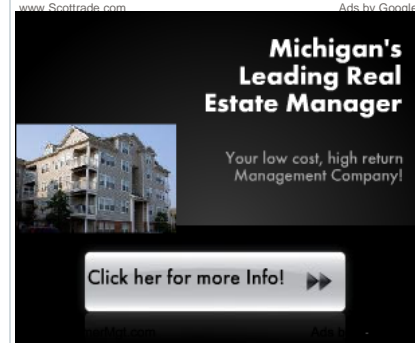
There's also a general ramp-up in staffing needed at the property level. "You have to work with properties that have been neglected for months at a time and have all kinds of issues when you get there," says Dave Woodward, CEO of Laramar Communities a Denver- and Chicago-based manager. "It's much more heavy lifting than normal property management assignment."

Executives need to be on call 24/7, too. Ledbetter says he's getting calls from bank executives with questions about the assets at all times, whether its during the weekday or weekend. And he needs to be on the phone with vendors as well. In most property sales, the vendors are paid and happy. But when a property goes through foreclosure, the vendors usually haven't been paid.

"Grabbing the vendor list and having a process for resolving those issues is key to making a smooth transition," Ledbetter says. "There are a lot of vendors that need to be contacted. In other cases, such as bankruptcy or receivership, those vendors need to be contacted in order for management to assess what total amounts owed really are."

### Finishing Out

Even when things are stabilized at the property, the turmoil doesn't end. "The expectation should be that it is a very short-term hold," Ledbetter says. "They will be working with one or more brokers to facilitate property tours. Managing through that



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process requires a special kind of team.”

The term “mange to own” is thrown around, but Bartling thinks lenders will avoid deals with their managers before a property is listed with brokers. “Most of the people in that space want to avoid the appearance of impropriety,” he says.

For a deal to happen, the lender would have to ensure that the appraisals, underwriting, and loan value led them to take the offer, not the relationship. “It’s a little tricky for an affiliate of the management company to buy,” Woodward says. “There will be a higher level of scrutiny to make sure it’s not an inside deal or we’re not taking advantage of managing the property.”

If the manager does decide to make a bid, Woodward insists it does have some advantages, though. “[Managing] gives us a higher level of understanding of the real estate than anyone will have,” he says. “Maybe the property has some excess land, and we see a great opportunity to build three or four buildings in the back, or we see that what some other people perceive as a structural issue really isn’t a big deal. It’s little nuances like that where we would be at an advantage.”

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Posted by: Patrick | Time: 1:50 PM Tuesday, October 27, 2009

This article raises some good points. Coincidentally, my latest newsletter offers further food for thought re. distressed properties. Patrick Simons, Principal, Strategic Residential Advisors. [www.apartmentmarketstudies.com](http://www.apartmentmarketstudies.com)

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